Will the Rural Economy Rebound in 2010?

By Jason Henderson

As the U.S. economy emerges from recession, prospects for a rural rebound in 2010 are also rising. After months of sharp contraction, the nation's GDP rose solidly in the second half of 2009. Rural job losses also slowed as the year progressed, and commodity prices rebounded, spurring some optimism that farm profits could soon stabilize.

The nation's economic gains, however, have lacked the strength to spur robust job gains or bolster incomes, raising the specter of another jobless recovery. As the recoveries following the 1990-91 and 2001 recessions struggled to create jobs, rural areas enjoyed stronger job growth than their metro counterparts. This time around, rural economies have kept pace with their metro peers. But the question remains: Can rural economies rebound more quickly in the year ahead?

This article reviews the state of the rural economy heading into 2010. The first section describes how falling demand brought an end to the farm boom in 2009. The second section examines the impacts of the recession and financial crisis on rural Main Street activity. The third section explores how the rural economy in 2010 may be shaped by the

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national recovery—and how stronger global economies and a weak dollar could offer new export opportunities in the year ahead.

I. THE FARM BOOM ENDS

The U.S. farm boom ended in 2009 with contracting domestic food demand, declining export activity, and stalling ethanol production. During the first half of the year, falling agricultural commodity prices trimmed agricultural profits, especially in the livestock sector. As a result, U.S. nominal net farm income in 2009 dropped 35 percent to $57 billion.[1] Stronger economic gains near the end of the year, however, supported a rise in farm commodity prices, underpinning farmland values and farm balance sheets.

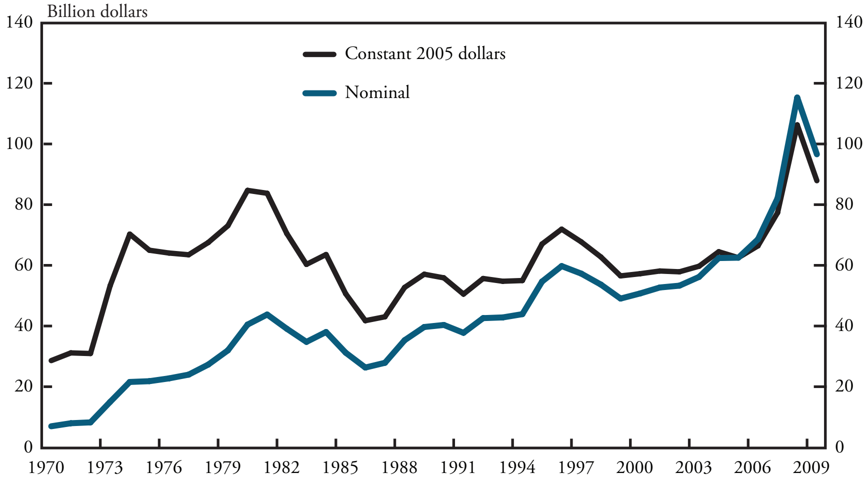
Falling demand stalls the farm boom

Heading into 2009, the recession and financial crisis cut global food demand. Slower economic gains in foreign countries and a stronger dollar trimmed agricultural exports. At home, U.S. consumers cut their food costs by spending less at restaurants and eating fewer high–priced foods. Moreover, weak energy demand limited profits in the ethanol industry, further trimming crop demand. By the end of the year, though, a turnaround in global economic conditions contributed to stabilizing agricultural commodity demand.

The effects of recession and the financial crisis combined to dampen agricultural exports in 2009. Weaker economic growth in foreign countries slashed demand for U.S. agricultural goods. Moreover, as investors flocked to "safe haven" investments, such as U.S. treasuries, the dollar strengthened, eroding the price competitiveness of U.S. products. Agricultural exports dropped 20 percent during the first ten months of the year (Chart 1).[2] The biggest declines emerged from livestock exports, led by a 45 percent decline in dairy exports. Meanwhile, concerns over the H1N1 flu virus cut pork exports. The value of wheat and corn exports also declined sharply due to lower prices and shrinking export volumes. In contrast, strong soybean exports to China limited the drop in the value of soybean exports.

Domestically, rising job losses and falling incomes contributed to lower food spending, especially early in the year. United States food sales fell in 2009, with the largest declines in away-from-home food

Chart 1
U.S. AGRICULTURAL EXPORTS



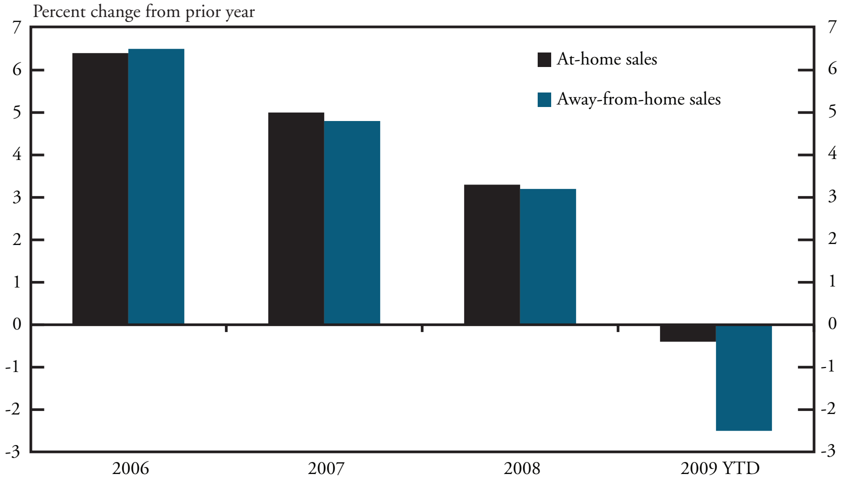
Source: USDA
Note: Export data are based on fiscal years ending in September

sales (Chart 2).[3] Consumers cut restaurant spending, especially at high-end, white table cloth restaurants. Sales held up better at fast food restaurants. Moreover, spending on higher-priced protein products also declined as U.S. consumers slashed spending on higher–priced beef, pork, poultry, and dairy items.

Weaker energy demand also cut demand for U.S. corn for ethanol production. The recession weakened U.S. fuel consumption, placing downward pressure on ethanol prices. The combination of falling fuel consumption and lower crude oil prices stalled U.S. ethanol production at roughly 80 billion gallons during the first four months of the year.[4]

As the year progressed, stronger economic gains helped stabilize agricultural demand. By the third quarter, economic gains in developing countries, coupled with a weaker dollar, strengthened U.S. agricultural export activity. Signs of a national recovery in the second half of the year included a modest rise in U.S. food expenditures. Meanwhile, stronger crude oil prices in the third quarter helped lift ethanol prices, profits, and production.

Chart 2
U.S. FOOD SALES



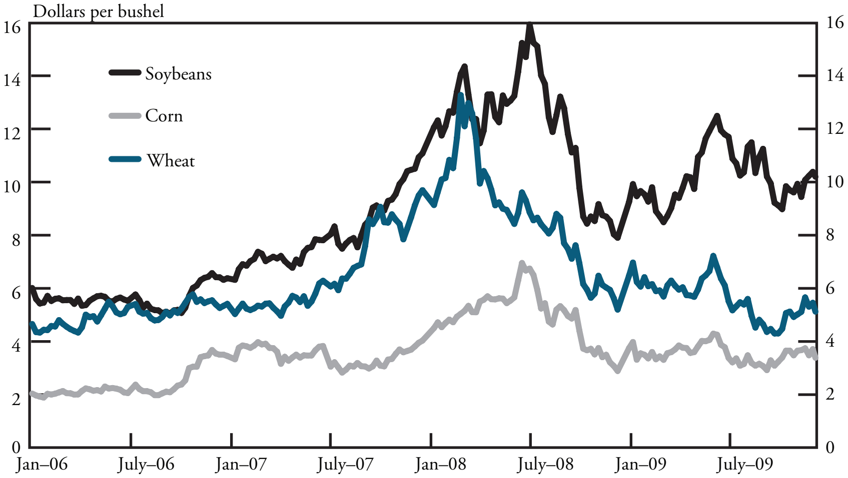
Source: USDA
Note: 2009 data are cumulative year-to-date through October.

Narrower profit margins for crop producers

U.S. crop prices remained historically high, and producers enjoyed another profitable year in 2009. Still, weak food and energy demand led to a sharp decline in crop prices heading into the year. The year's bumper crops and solid prices supported robust profits, despite rising input costs. Gains in export and energy activity during the fall harvest further supported crop prices and profits.

Crop producers faced another volatile year in 2009. The recession and financial crisis continued to depress crop markets through the summer (Chart 3). Still, crop prices remained historically high, and farmers responded by increasing production. A wet spring delayed planting in the eastern Corn Belt, but favorable weather conditions during the summer led to bumper crops. Due to strong yields, U.S. farmers harvested a record soybean crop, and the corn and rice crops were the second and third largest on record, respectively. Wheat producers also enjoyed near–record high yields in 2009. The prospects of bumper crops caused crop prices to decline through the second quarter, but heavy rains in the fall delayed the crop harvest and, combined with

Chart 3
U.S. CROP PRICES



Source: Commodity Research Bureau

stronger export and energy activity, contributed to a rebound in crop prices at the end of the year.[5]

Bumper crops and the year-end rebound in prices helped support profitability for the year. Still, with prices lower than in 2008, gross crop revenues fell 10.6 percent. Corn and wheat revenues fell sharply, with higher gross revenues for soybeans and rice. Elevated production costs further limited net margins. According to the U.S. Department of Agriculture (USDA), prices paid by crop farmers held steady in 2009, as lower fuel and fertilizer costs were offset by gains in seed and chemical costs. Nevertheless, net market returns to corn, soybean, rice, and wheat production remained well above historical levels despite falling below the previous year's record highs (Chart 4).

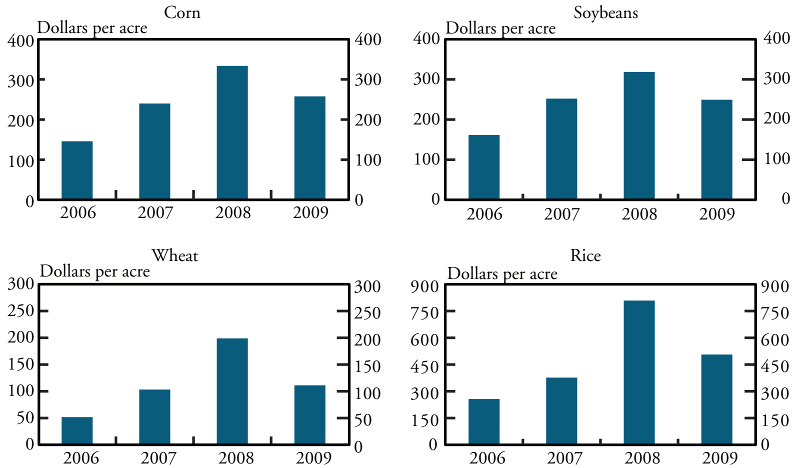
Livestock profits decline amid weak demand

Livestock producers struggled to post profits in 2009. Soft demand cut livestock prices and, aside from lower feed costs, production costs remain elevated. As a result, livestock producers operated at or below breakeven levels for most of the year. Losses narrowed at the end of the year as stronger economic activity lifted livestock prices.

Chart 4

U.S. CROP PROFIT MARGINS

(Market Returns above Variable Costs)



Note: Calculations based on USDA cost of production forecasts, annual yields, and annual farm prices. Variable costs exclude fixed costs such as the costs for land, labor, depreciation, farm overhead, and taxes.

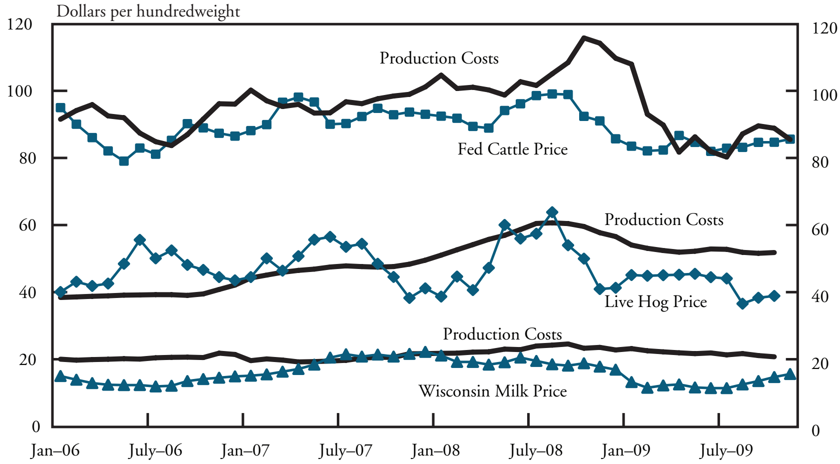
Weak protein demand contributed to lower livestock prices in 2009.[6] Sharp declines in dry milk exports contributed to a collapse in dairy prices. Milk prices plunged more than 30 percent below year–ago levels. Weak demand also trimmed live cattle and feeder calf prices roughly 10 and 6 percent below year–ago levels, respectively. Limited export activity due to the H1N1 scare pushed hog prices more than 15 percent below 2008 levels. Poultry prices also declined with broiler and turkey prices falling roughly 3 and 10 percent, respectively, below previous year levels.

With feed costs elevated, lower prices limited profit opportunities for livestock producers. After surging in 2008, feed costs fell almost 4 percent but still remained historically high, erasing profits for most of the year (Chart 5). Dairy and pork producers suffered the greatest losses from the low prices and high feed costs. Cattle producers operated slightly below breakeven levels by the end of the year. Poultry producers enjoyed a modest rebound in profitability early in the year—but rising feed costs in the third quarter limited profits as 2009 came to a close.

In 2008, poultry, pork, and beef livestock producers responded to higher feed costs and low profits by liquidating herds. Faced with limited profit opportunities, some livestock producers extended herd liq-

Chart 5

LIVESTOCK PRICES AND BREAKEVEN PRODUCTION COSTS



Source: USDA and Iowa State University

uidations into 2009. As a result, meat and poultry production declined 4 percent during the first ten months of the year. While lower supplies helped support prices, meat and poultry receipts still fell 11.5 percent annually. In contrast, the dairy industry only began major herd liquidations in 2009 with the Cooperatives Working Together (CWT) dairy buyout program, which cut the dairy herd by roughly 250,000 cows. With herd liquidations delayed, milk production held steady and dairy receipts plunged more than 30 percent with the low prices.

Still, economic losses began to narrow toward the end of the year. Production costs remained elevated, but reduced supplies and stronger economic gains helped underpin livestock prices. After bottoming in July, prices rebounded with stronger export activity. The price uptick helped narrow economic losses to the livestock sector. In the fourth quarter, cattle feeders and poultry producers were operating at or near breakeven levels, while dairy and hog producers posted substantial losses. With continued losses in the dairy and pork sectors, USDA expects further herd liquidations in 2010 to rebalance supplies with demand.[7]

Healthy farm balance sheets

Narrower profit margins in the crop sector and losses in the livestock sector pushed net farm incomes well below 2008 highs. Accordinging to USDA, real net farm income for 2009 was $52 billion, well below the $80 billion posted in 2008 (Chart 6). Weaker profits slowed farmland value gains, trimmed equipment spending, and reduced farm loan repayments.

With weaker farm incomes, farmers reduced capital expenditures. According to Federal Reserve agricultural credit surveys, more bankers reported reduced capital spending by farmers in 2009.[8] In November, the Association of Equipment Manufacturers reported that yearly sales of four-wheel drive tractors fell 22 percent below 2008 levels. Agricultural bankers also reported softer operating loan demand.

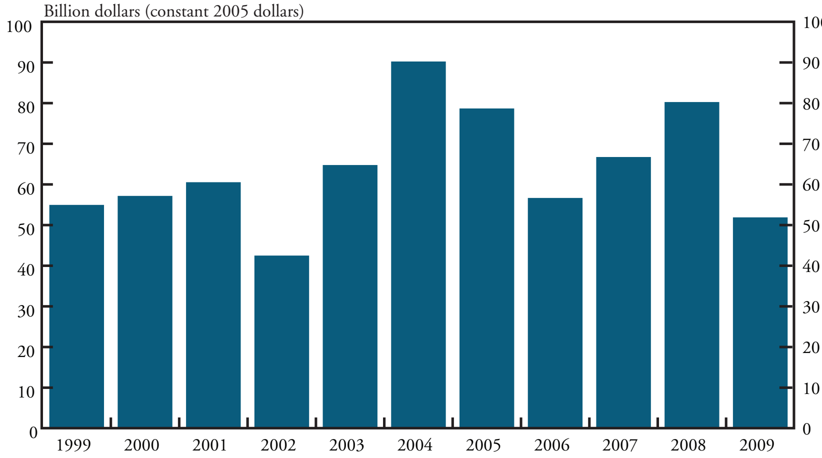
Lower farm incomes also strained farm financial conditions. Farm loan delinquencies edged up to 2.5 percent in 2009 with charge-off rates rising to 0.6 percent. While rising, delinquency and charge-off rates still remain below their historical averages. According to the Federal Reserve surveys, more bankers reported lower repayment rates and higher levels of loan renewals and extensions (Briggeman and Akers; Madden; Oppendahl). And, bankers expect financial conditions to deteriorate further into 2010.

The Federal Reserve agricultural credit surveys continue to report tight credit standards for agricultural loans. Commercial banks report that collateral requirements remained elevated in 2009 due to increased risk in agricultural portfolios. Bankers have expanded their use of guaranteed loan programs and report reducing the term on loans to mitigate rising risks. Anecdotal evidence suggests that rising credit standards were due to uncertainty in agricultural markets, as the share of bankers who reported having funds available for agricultural loans and agricultural interest rates remained historically low, despite edging up toward the end of the year.

Still, farmland values remained near record highs in 2009. After softening heading into 2009 with weaker agricultural commodity prices, farmland values held steady through most of the year (Chart 7).[9] While profits from crop production declined, they remained historically high and continued to underpin robust farmland values, especially for high-quality cropland. Moreover, according to USDA, cropland cash rental rates rose 5.3 percent during the year, which also helped support farmland values.[10] Anecdotal reports indicate that nonfarm investor demand for farmland rebounded as the financial crisis eased. Moreover,

Chart 6

U.S. NET FARM INCOME



Source: USDA

additional reports indicate that farmers were reluctant to sell land as they saw few alternative opportunities for investment.

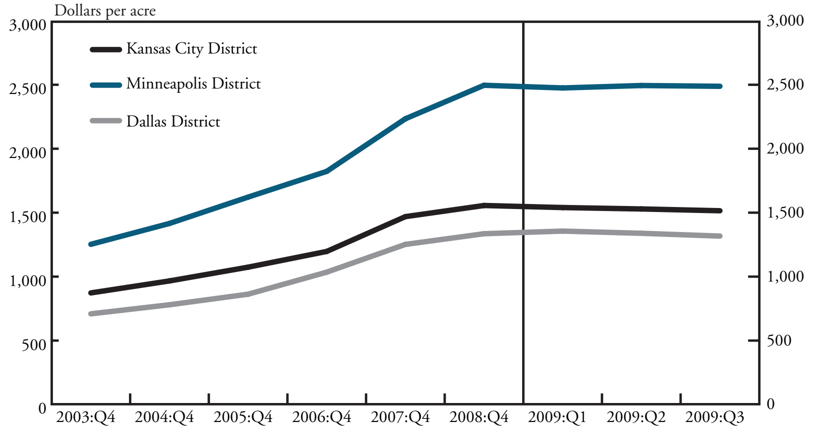
Farm balance sheets softened with weaker farm asset values and a modest rise in debt. The value of farm assets declined in 2009. Total real estate asset values, which account for roughly 85 percent of farm assets, were 3.5 percent below 2008 levels, while total non-real estate asset values edged down slightly. Yet, total real estate debt increased 2.1 percent, while non-real estate debt fell 2.5 percent. Rising debt levels and falling asset values led to higher debt ratios for the second straight year with the debt-to-asset ratio reaching its ten–year average of 12.3 percent.

II. AFTER SHARP DECLINES, MAIN STREET ACTIVITY STABILIZES

The recession also tightened its grip on the Main Street economy in 2009. During the first half of the year, rural communities faced stiffer job losses.[11] Traditionally, rural job growth has trailed metro growth, but rural economies kept pace with metropolitan areas since the beginning of the recession, which started in December 2007. As 2009 ended, rural economic conditions stabilized as broader U.S. economic conditions strengthened.

Chart 7

NONIRRIGATED CROPLAND VALUES BY FEDERAL RESERVE DISTRICT



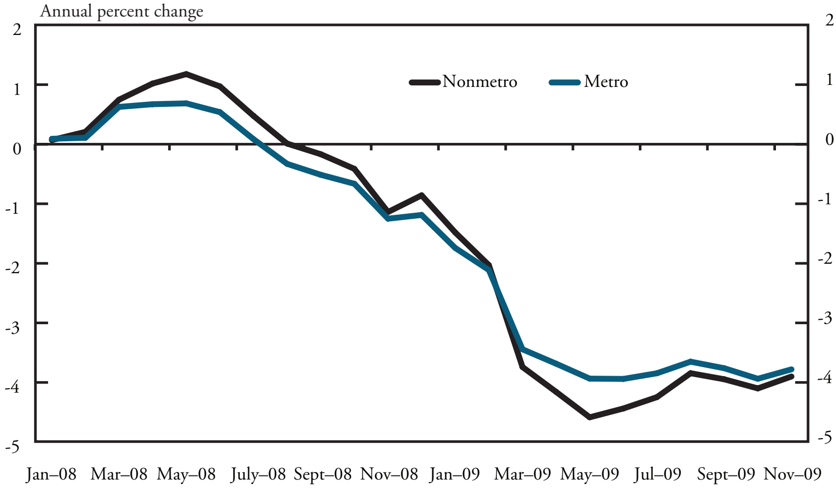
Source: Federal Reserve Banks of Dallas, Kansas City, and Minneapolis

With the recession intensifying, rural economies faced weaker economic conditions. By January 2009, job losses had begun to mount in rural communities. The job losses accelerated through the first half of the year, and reports of business closures and mass layoffs increased in rural communities. Rural households reported increased employment losses in 2009, and the rural unemployment rate exceeded 10 percent.[12] Rising unemployment also contributed to lower incomes in rural communities.

Rural economies struggled to keep pace with their metro peers in 2009 (Chart 8). After enjoying fewer job losses in 2008, employment in rural counties declined roughly 4 percent below year–ago levels by November, compared to an average 3.8 percent decline in metro counties. However, since April, the pace of employment losses in nonmetro counties has improved and the gap between rural and metro growth has narrowed.

Employment declines were reported across all types of rural counties, with slightly steeper losses in larger rural communities. Town counties (nonmetro counties without towns of more than 10,000 residents) experienced an annual employment loss of 4.1 percent by November. Micropolitan counties (nonmetro counties with at least one city of more than 10,000 residents) experienced an annual employment loss of 3.9 percent by November.

Chart 8
EMPLOYMENT GROWTH BY METRO STATUS



Source: Bureau of Labor Statistics, LAUS data

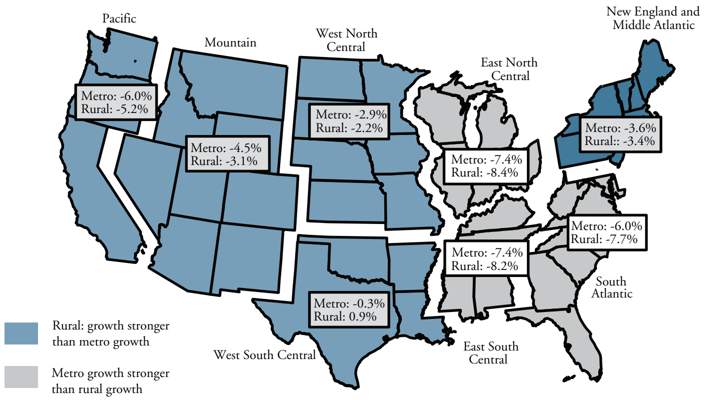
Even with these losses, rural areas in the western half of the nation held up better in the recession than their metro peers. West of the Mississippi River and in the New England/Middle Atlantic region, rural communities sustained fewer employment losses than neighboring metro communities since 2007 (Map). In fact, in the West South Central Region (Texas, Oklahoma, Arkansas, and Louisiana), rural employment levels remained solidly above 2007 levels, compared to losses in the region's metro areas. The relative strength of the rural economy has been fueled in part by its large concentration of commodity-based industries, where stronger farm and mining–dependent counties in the Great Plains regions supported economic activity in 2008 (Henderson and Akers, 2009). Moreover, the housing crisis was less severe in rural areas with less exposure to subprime lending and shallower declines in home prices (Edmiston and Zaleraitis; Wilkerson; Henderson and Akers 2009).

Sharp declines in goods-producing activities

The 2009 rural downturn was led by weakness in goods-producing industries—mining, manufacturing, and construction. After contracting in 2008, goods-producing jobs in rural firms declined more sharply in

Map

EMPLOYMENT GROWTH
(November 2007 to November 2009)



Note: Calculations based on three–month moving averages from the Bureau of Labor Statistics, LAUS data.

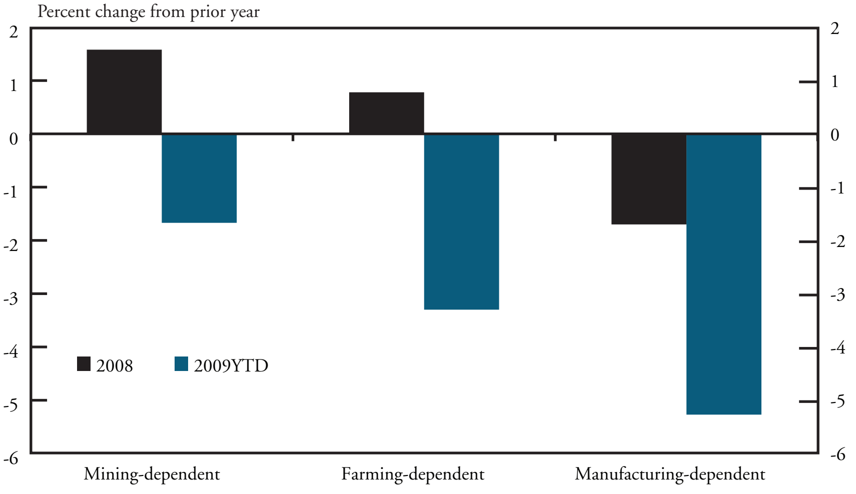
2009. The price collapse in farm and energy commodity markets during the year contributed to lower activity in goods-producing sectors.

Weaker commodity markets trimmed activity in natural resource industries. After spiking in 2008, the sharp declines in commodity prices heading into 2009 contributed to economic weakness in farm- and mining–dependent regions. Falling agricultural commodity prices cut economic gains in farm-dependent regions, where employment fell at an average annual rate of roughly 3 percent after posting gains during the previous year (Chart 9).[13] Energy- and mining-dependent regions also faced employment losses of 1.1 percent in 2009 after posting solid gains the year before. Energy companies reduced the number of active drilling rigs to cut production, which trimmed demand for energy-related goods and services. Wage gains in energy-related firms slowed dramatically. The biggest economic declines occurred in firms and geographic regions more highly concentrated in natural gas extraction, as natural gas prices rebounded less than crude oil prices during the third quarter.

Rural communities also faced steeper cuts in manufacturing jobs. Over the 12 months ending in October 2009, jobs in rural factories fell more than 10 percent. Rural areas experienced a sharp rise in factory closures and mass layoffs. As a result, manufacturing-dependent rural

Chart 9

NONMETRO EMPLOYMENT BY COUNTY TYPE



Note: Calculations based Bureau of Labor Statistics, LAUS data and ERS, USDA definitions of farm, mining, and manufacturing dependent counties.
Note: 2009 data are year-to-date through November.

communities faced sharper employment losses than other rural communities, with employment falling more than 5 percent annually into the fourth quarter. The job losses were fairly broad-based. The food and agricultural equipment industries, which helped support rural economic growth in 2008, reported larger job losses in 2009.

Following national trends, rural construction activity remained weak. Residential construction activity remained well below year–ago levels in 2009, but by November rural single-family housing permits had returned to year–ago levels, similar to a metro rebound. In contrast to metro areas, though, weak housing activity contributed to only modest declines in rural home prices. By the third quarter of 2009, rural home prices fell 1.8 percent annually according to the Federal Housing Finance Agency, well below the contraction in metro home values.

Job losses in business and consumer services

Rural service-producing industries also faced declining activity and job losses. The steep decline in goods-producing sectors contributed to a deeper contraction in business-related service enterprises. Job losses were more moderate in sectors depending on consumer spending. Government jobs outside metropolitan areas rose moderately.

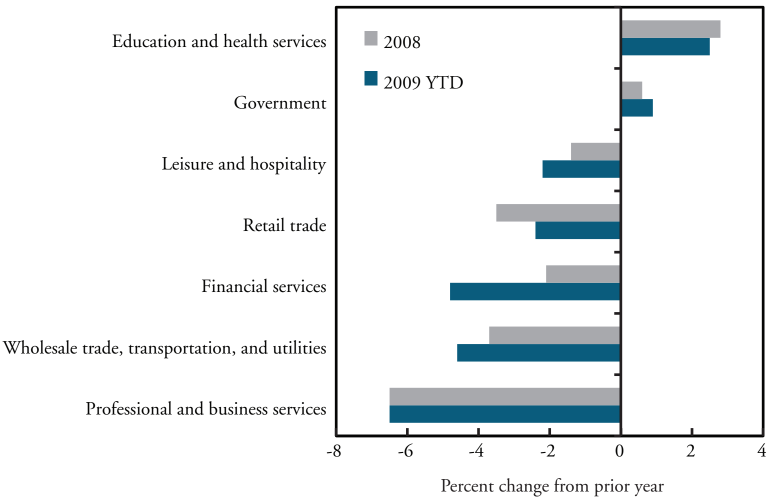
Business activity and job losses were more dramatic for service-producing firms selling directly to businesses instead of consumers. Job losses in rural professional and business service firms–which include accountants, lawyers, advertising agencies, and computer designers–topped 6 percent in 2009 (Chart 10). Weaker activity in goods-producing industries limited business prospects for distribution industries, as the amount of goods shipped by road and rail remained low. In 2009, rural jobs in wholesale trade, transportation, and utility firms had fallen roughly 5 percent below year-ago levels, with most of the losses concentrated in transportation and wholesale trade firms.

As the financial market challenges spread from Wall Street to Main Street, job losses in financial service firms began to mount. Financial service firms struggled to post profits. According to the Federal Deposit Insurance Corporation (FDIC), return on assets and equity slowed in agricultural banks–rural banks with at least 25 percent of their loan portfolio concentrated in the agricultural sector.[14] Still, agricultural banks were able to earn positive returns compared to other commercial banks, which reported flat to negative profits. Rural financial service jobs declined throughout the year, but the losses remained roughly 5 percent, on par with losses in metro areas.

Rural service-producing firms more dependent on consumer spending reported fewer job losses. Solid job gains in education and health service firms underpinned service employment in both rural and metro areas. Supported by relatively stronger retail trade activity, retail trade jobs fell less rapidly in rural areas, roughly 3 percent annually, compared to a 4 percent decline in metro areas. Despite declining for the year, rural leisure and hospitality industries reported positive job gains during the summer, in sharp contrast to job losses in metro areas. This difference could be emerging from a higher dependence on business and convention travel in metro areas. Anecdotal reports suggest that some rural areas enjoyed growing numbers of tourists who were limiting travel and visiting less expensive, regional recreational destinations.

Finally, government sector employment rose modestly. Through November, rural government jobs rose solidly above year-ago levels,

Chart 10
NONMETRO SERVICE-PRODUCING JOBS



Source: Bureau of Labor Statistics. 2009 data through November.

compared to job losses in metro communities. Strong farm and residential real estate values helped underpin local tax revenues.

Nonfarm activity stabilizes to close the year

After sharp nonfarm job losses in early 2009, rural economic activity began to rebound during the summer. The pace of annual rural job losses began to slow in the third quarter as signs of recovery emerged in both goods- and service-producing industries.

Nationally, stronger export activity supported many of the goods-producing industries. Foreign demand for U.S. goods rose late in the year due to stronger economic growth in foreign economies and a weaker dollar, which made U.S. goods more affordable to foreign consumers. The pace of annual job losses in the goods-producing sector bottomed as the second quarter ended. Rural job losses at manufacturing firms slowed amid reports of stronger export activity. Rural mining activity also bottomed as drilling permit activity rebounded slightly in the second quarter. Moreover, rural construction activity strengthened in the third quarter as the tax credit for first-time homebuyers supported stronger sales and construction activity.

Rural service-producing activity also turned around modestly in the third quarter. Stronger goods-producing activity supported improvements in wholesale trade and transportation employment. Financial, professional, and business service firms reported fewer job losses toward the end of the year. Consumer-oriented service firms reported that labor markets were firming up heading into the Christmas season. Weakness in government sector finances, however, raised the prospect of future job losses.

III. RURAL ECONOMIES IN JOBLESS RECOVERIES

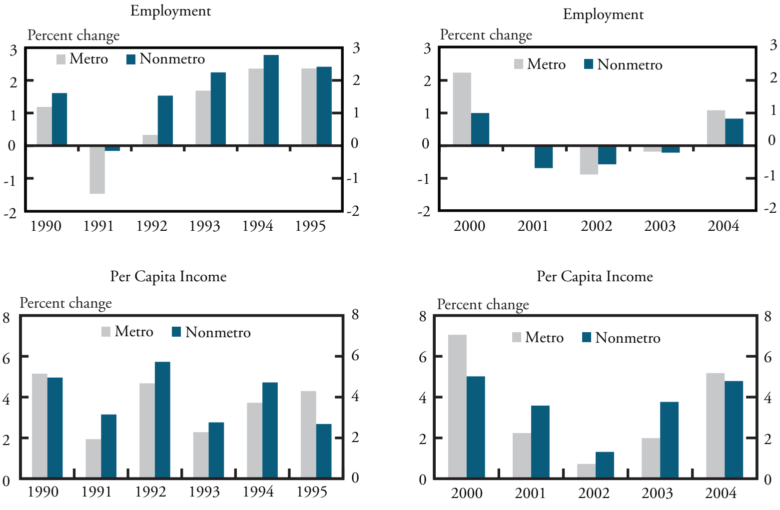
With farm and nonfarm activity stabilizing near the end of 2009, rural economic activity in 2010 will hinge on the strength of the national economic recovery. According to the November minutes of the Federal Open Market Committee of the Federal Reserve, the U.S. economy is projected to rebound in 2010 with GDP rising between 2.5 and 3.5 percent during the year.[15] While welcomed, such a pace of growth is anemic by historical standards when coming out of recession. After the 10 recessions since World War II, GDP growth one year after the end of a recession has averaged 5.1 percent.

A sluggish growth rate could produce another so-called "jobless recovery," where economic gains are insufficient to spur job gains. In fact, the Federal Reserve projects U.S. unemployment rates to remain elevated in 2010, remaining between 9.3 and 9.7 percent by the end of the year. Anemic growth and weak job markets are consistent with economic recoveries in other nations that have suffered a severe financial crisis (Knotek and Terry).

The U.S. economy is not immune to recoveries that struggle to produce jobs. In the first year after the 1990-91 and 2001 recessions, job gains were anemic—and employment losses were sharper in metro areas than rural areas (Henderson, 2004; Kushmin and Parker).[16] After the 1990-91 recession, annual gains in rural employment stayed above metro gains through 1994 (Chart 11). After the 2001 recession, annual employment levels fell less sharply in rural areas. And a similar pattern emerged for per capita incomes. From 1992 to 1994, per capita incomes rose faster in rural areas. Again, from 2001 to 2003, per capita incomes rose faster in rural areas.

Chart 11

EMPLOYMENT AND PER CAPITA INCOME FOLLOWING 1990-91 AND 2001 RECESSIONS



Calculations based on BEA wage and salary employment and per capita income data.
Note: The 1990-91 recession ending in March 1991 and the 2001 recession ending in November 2001.

During the recoveries following the 1990-91 and 2001 recessions, rural growth was driven by strength in goods-producing industries. Rural manufacturing and farm earnings rebounded sharply in 1992. In 2002, rural manufacturing and farm earnings in these industries again rebounded solidly, with even larger gains in the mining sector. With goods-producing industries poised for recovery, these industries could again pace rural economic growth in the coming year.

Stronger export activity will be crucial to the rebound in goods-producing activity—and in rural prosperity. In 2010, agricultural exports are projected to rebound with stronger global economies and a weak dollar. In October, the International Monetary Fund projected a 2010 rebound in world growth, led by robust gains in developing countries, with stronger gains heading into 2011. In addition, the dollar continued to weaken heading into 2010. Robust export activity is expected to support higher agricultural commodity prices this year (Table 1). Moreover, world grain inventories remain near historical lows, with stocks-to-use ratios of roughly 20 percent. Tight inventories will underpin farm level prices.

Resurgent manufacturing export activity could also support a rural rebound. Exports of U.S. non-agricultural goods jumped 28 percent annually in the third quarter of 2009, with stronger gains in durable goods exports. Compared to their metro peers, rural economies are more dependent on manufacturing. The manufacturing sector accounts for 12.1 and 18.2 percent of rural employment and earnings, respectively, compared to 7.5 and 11.5 percent in metro areas. Due to these larger concentrations, the strength of a rural recovery could depend heavily on a manufacturing rebound and stronger export activity. However, excess capacity in the manufacturing sector could limit rural employment growth.

Rising energy prices could support a rebound in rural mining activity. According to the Energy Information Agency, crude oil and natural gas prices are expected to rebound modestly with stronger economic activity. Higher energy prices have a larger impact on rural households and businesses, primarily due to higher transportation needs from living and operating in more remote areas, which will limit rural economic gains (Henderson and Akers). On the other hand, rising energy prices could spark a rebound in energy production, leading to increased drilling activity and ethanol production. Rural energy-dependent counties, which contracted significantly in 2009, could enjoy somewhat stronger activity if the economic recovery leads to higher energy prices. However, energy prices remain volatile, and prices may not rebound enough to spur additional production activity.

Stronger gains in goods-producing sectors could spur additional gains in business-related services, which account for a larger portion of rural service activity. Resurgent export activity could support the demand for transportation and business services. Wholesale trade, transportation, and professional and business service firms account for a larger share of rural employment and income than in metro areas. As a result, stronger gains in these sectors could provide a stronger boost to rural economies in 2010.

Rural consumer-oriented services could enjoy a modest rebound in activity. Consensus forecasts suggest that personal consumption expenditures could rise 2.5 percent by the end of 2010. Consumer spending could strengthen as the year progresses due to stronger employment and income gains and lower unemployment rates. Still, consumer spending

Table 1
AGRICULTURAL AND ENERGY PRICES

Commodity	**2007-2008**	**2008-2009**	**2009-2010**
Corn *($ per bushel)*	4.20	4.06	3.25 - 3.85
Soybeans *($ per bushel)*	10.10	9.97	8.75 - 10.25
Wheat *($ per bushel)*	6.48	6.78	4.65 - 5.05
Rice *($ per cwt)*	12.80	16.80	13.90 - 14.90
	2008	**2009**	**2010**
Cattle – choice steers *($ per cwt)*	92.27	82.95	86-93
Hogs – barrows and gilts *($ per cwt)*	47.84	40.81	43-46
Broilers *($ per pound)*	79.70	77.50	75.81
Milk *($ per cwt)*	18.29	12.65	16.05-16.95
WTI Crude oil *($ per barrel)*	99.57	61.87	78.67
Natural gas – wellhead price *($ per mcf)*	8.08	3.67	4.13

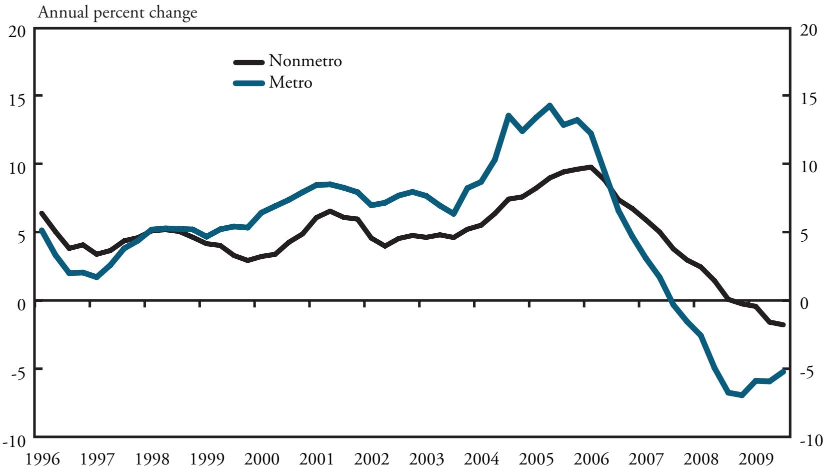
Note: Agricultural commodity prices obtained from World Agricultural Supply and Demand Estimates, USDA. Energy commodity prices obtained from Short-term Outlook Report, Energy Information Administration.

growth will be anemic by historical standards. After the 10 recessions since World War II, personal consumption expenditures have risen on average 6.5 percent in the first year of recovery.

Nevertheless, consumer spending could hold up better in rural areas due to a stronger wealth effect. In a handful of states last year, county-level retail sales held up better in rural than in metro counties (Henderson 2009). While rural incomes declined at the same pace as metro incomes, rural wealth levels held up better. Real estate accounts for the largest portion of U.S. household wealth. Farm real estate values remain near record highs, and during the recession rural home values held up better than metro home values (Chart 12). The relative strength in rural real estate wealth could support rural spending in the coming year.

Finally, government spending will help shape the rural economic rebound. While the federal government has boosted its deficit spending to spur economic activity, state and local governments across the country are struggling to meet their fiscal obligations. With many state and

Chart 12
HOME VALUES BY METRO STATUS



Calculations based on Federal Housing Finance Agency (FHFA) data.

local governments required to balance their budgets, they will be forced to cut spending in the face of declining revenues. For many city and county governments, state transfers account for a large portion of local spending, and a decline in state government spending could quickly cascade to tighter spending at the local level.

While state and local government activity will decline, the relative drop in rural areas remains uncertain. State and local government activity accounts for a larger share of rural employment (14.3 percent) and earnings (17.6 percent) compared to their metro peers (10.4 and 11.1 percent, respectively), suggesting steeper rural declines. However, stronger retail sales and more resilient property values suggest that retail sales and property tax receipts could hold up better in rural communities.

IV. SUMMARY

The recession and financial crisis finally caught up with rural economies in 2009. The farm boom quickly faded, and economic activity contracted sharply on Main Street. By the end of the year, as the global economy rebounded, rural economies stabilized at relatively low levels.

Economic forecasts suggest the recovery could be a sluggish one, as economic gains may not be strong enough to spur robust job gains in the year ahead. In past recoveries where national job gains were limited, rural areas rebounded at a quicker pace than metro areas. Domestic consumer spending is expected to rebound modestly, with stronger growth emerging from rising export activity. The low value of the dollar and stronger foreign economic growth should spur emerging export opportunities.

While the rural economy is poised for recovery, risks remain in both domestic and foreign demand for rural products. Still, rural America's dependence on goods-producing industries—farming, mining, and manufacturing—suggests that rural prosperity this year could hinge on the ability of rural businesses to harvest emerging opportunities in global markets.

ENDNOTES

[1]Farm income estimates were obtained from the Economic Research Service (ERS) at the U.S. Department of Agriculture (USDA), *www.ers.usda.gov/briefing/farmincome*.

[2]U.S. agricultural trade statistics obtained on December 14, 2009, from the Foreign Agricultural Trade of the United State (FATUS), *http://www.ers.usda.gov/Data/FATUS/#monthly*.

[3]Monthly food sales data were obtained on December 14, 2009, from ERS, *http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/Data/Expenditures_tables/table36.htm.*

[4]U.S. ethanol production data were obtained on December 14, 2009 from the Renewable Fuels Association, *www.ethanolrfa.org*.

[5]Crop planted acres, production, yields and annual prices were obtained from the National Agricultural Statistical Service, U.S. Department of Agriculture on December 14, 2009, *www.nass.usda.gov*.

[6]Annual livestock prices and production estimates were obtained from the *Livestock, Dairy and Poultry Report*, December 14, 2009.

[7]Livestock production and slaughter information obtained from the December *Livestock, Dairy and Poultry Report, www.ers.usda.gov*.

[8]The Federal Reserve Banks of Chicago, Dallas, Kansas City, Minneapolis, and Richmond conduct agricultural credit surveys which may be accessed at *www.kansascityfed.org/agcrsurv/agcrmain.html*. Additional information on agricultural loan activity at commercial banks can be obtained from the *Agricultural Finance Databook*.

[9]The Federal Reserve Banks of Dallas, Kansas City, and Minneapolis reported similar trends for irrigated and ranchland values.

[10]Cost of production estimates were obtained from USDA's Commodity Costs and Returns website, *http://www.ers.usda.gov/data/CostsAndReturns/.*

[11]In this article, rural areas are defined as nonmetropolitan counties or areas outside metropolitan areas.

[12]The Bureau of Labor Statistics (BLS) uses two different surveys to estimate employment and job levels. The BLS conducts the Current Employment Statistics (CES) survey, a survey of businesses and government agencies, to estimate nonfarm jobs levels. The Local Area Unemployment Statistics (LAUS) program provides resident employment and unemployment levels for states and counties. Employment and job growth will differ due to commuting patterns and the level of self-employment.

[13]USDA classifies counties based on their economic characteristics, identifying counties by their concentrations in economic activity. More information on county typologies is available at *http://www.ers.usda.gov/Briefing/Rurality/Typology/.*

[14]Information regarding the profit margins and return on assets at commercial banks were obtained from *Statistics at a Glance* from the Federal Deposit Insurance Corporation (FDIC), at *www.fdic.gov*.

[15]The economic projections are based on the central tendency of Federal Reserve Governors' and Reserve Bank presidents' projections from minutes of the FOMC meeting on November 3-4, 2009. The economic projections are available at *http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20091104.pdf.*

[16]For a historical comparison, annual data on per capita incomes and wage and salary earnings and employment in metropolitan and nonmetropolitan areas were obtained from the Bureau of Economic Analysis, Regional Economic Information System, available at *www.bea.reis.gov*.

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